



State of North Carolina

Office of the State Controller

Michael F. Easley, Governor

Robert L. Powell, State Controller

December 14, 2001

MEMORANDUM NO.

TO: Senator Eric Reeves
Senate Appropriations Committee on Information Technology, Chair
Joint Select Committee on Information Technology, Co-Chair

Representative Joe Tolson
House Appropriations Subcommittee on Information Technology, Co-Chair
Joint Select Committee on Information Technology, Co-Chair

Representative Russell Tucker
House Appropriations Subcommittee on Information Technology, Co-Chair

FROM: Robert Powell, State Controller
David McCoy, State Budget Officer
Ron Hawley, Chief Information Officer

SUBJECT: Interim Report -- Defining and Capturing Computer Networking Costs

Attached please find the interim report on Defining and Capturing Computer Networking Costs. This report addresses the requirements set forth in the FY2001 Appropriations Bill, section 15.4(a) and 15.4(b) "Computer Networking Costs/Telecommunications Service Billing for State Agencies". The two interim reports requested in the special provision are combined into this single report.

The final report on implementing the new process to capture networking costs is due May 1, 2002. Please contact any of our offices if additional information is needed.

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Introduction

In the 2001 Appropriations Bill, the Legislature directed the Office of the State Controller (OSC), the Office of State Budget and Management, and the Office of Information Technology Services (ITS) to adopt a common definition for computer networking costs and to define a process to capture all such costs. Prior to the legislative mandate, the NC Net Initiative began a project to define categories for reporting network service provider costs. The following definitions build upon the work of the NC Net Initiative's fiscal committee that includes staff members of each of the aforementioned offices as well as agency representation.

Definitions

Computer networking is defined as wide area networking (WAN), video, and data connectivity services that are provided up to and including the router at a particular end user site, excluding Local Area Networks (LANs). Four major cost categories make up computer networking costs.

A) Network Service Providers Expenses – Purchased Services

These are the services provided by “value added resellers.” For many state agencies, the “reseller” is ITS that provides state networking services to a wide number of governmental entities. This category also includes payments to Internet Service Providers for those entities that contract directly. For the UNC System, this category includes payments to MCNC. For the network providers, primarily ITS, this category includes the charges paid to other network service providers for services and facilities. Detail accounts within this category are

- Telecommunications Data Charge - to record data transmission costs (WAN charges) such as shared data charges and point-to-point data charges.
- Video Transmission Charge - to record video transmission costs such as NCIH charges.
- Internet Service Provider Charge - to record dial-up or direct service link costs when the service is provided by a non-state entity (e.g. AOL, RoadRunner, GTE, Earthlink).

B) WAN Hardware, Software, and Tools

These are the costs incurred for hardware, software, and tools associated with wide area network management. It includes lease, rental, purchases, maintenance, and other expenses. OSC is adding new accounts to the statewide chart of accounts to separate WAN and non-WAN expenses in a way that has not been done previously. Detail accounts within this category are

- Maintenance Agreement for WAN Equipment - to record costs of a separate maintenance agreement on wide area network equipment. The maintenance agreement is not part of an equipment lease agreement.
- Maintenance Agreement for Video Transmission Equipment - to record costs of a separate maintenance agreement on video transmission equipment. The maintenance agreement is not part of an equipment lease agreement.
- Maintenance Agreement for WAN Software - to record costs of a maintenance agreement on wide area network software.
- Rent/Lease of WAN Equipment - to record charges for wide area network data processing equipment including software and maintenance as set forth in a rent/lease agreement.
- Rent/Lease of Video Transmission Equipment - to record charges for video transmission equipment including software and maintenance as set forth in a rent/lease agreement.
- WAN Equipment Purchases - to record charges for wide area network data processing equipment including bundled software.
- Video Transmission Equipment Purchases - to record charges for video transmission equipment including bundled software.
- WAN Computer Software Purchases- to record charges for software purchased separately from a wide area network equipment purchase.

C) Wide Area Network Direct Support Expenses

These costs cover the personnel who support the wide area network and work (either directly or as contractors) for the state network service providers. Personnel costs include staff directly involved in supporting the wide area network, such as technicians and network administrators. Contracted service cost is captured in the following account

- WAN Support Services - to record services purchased from independent contractors and/or external organizations for analyzing, designing, implementing, and/or supporting a wide area network.

No detail accounts exist to capture state employee salary costs in supporting a wide area network. Salary expense accounts are based on position status, such as time-limited, temporary, exempt, or subject to the State Personnel Act. The salary accounts do not indicate the type of work performed by a staff position and revamping the account structure based on type of work performed is not cost effective.

Only network service providers are expected to have significant state employee salary costs for wide area network support. The primary network service provider is ITS. ITS identifies wide area network related salary costs through their cost center structure, and ITS can provide this cost data as needed. Administrative Office of the Courts (AOC), the Department of Justice (DOJ), and the UNC System are the only other state agencies that provide network services. Studies in progress now will detail the costs of AOC and DOJ. A future task will be developing an ongoing process by which these two agencies can routinely report these costs. An additional task is to determine if the UNC System has material costs to report in this category.

D) Indirect Support Expenses (Overhead)

These are the indirect costs associated with A, B, and C above. Therefore, this category includes indirect personnel costs, indirect facilities charges, and indirect wide area network hardware and software expenses. These charges cannot be allocated to a particular activity and, therefore, are typically spread across all costs – referred to as overhead.

Indirect expenses may be charged to multiple accounts throughout the statewide chart of accounts. Only network service providers are expected to have significant overhead costs for wide area network support. As the primary network service provider, ITS identifies wide area network related overhead costs through their cost center structure and can provide this cost data as needed. Studies in progress now will detail the costs of AOC and DOJ. A future task will be developing an ongoing process by which these two agencies can routinely report these costs. An additional task is to determine if the UNC System has material costs to report for overhead.

Next Steps

Over the next few months, the Office of the State Controller will add the new accounts to the statewide chart of accounts and instruct agencies to use the new accounts. The Office of State Budget and Management will work with the agencies to realign budgets relative to the new accounts. Some agencies may begin posting to the new networking accounts in the current fiscal year, but agencies will not reclassify prior transactions. All agencies will be required to post costs to the new accounts beginning July 1, 2002. In fiscal year 2003, ITS will provide detailed information on the costs reported by agencies in Category A when the service was provided by ITS. In addition, the Office of the State Controller will revise the schedules in the Information Technology Expenditures report to itemize networking costs.